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TOP C.I.A. OFFICIAL RESIGNS, DENYING FRAUD ALLEGATIONS

REPLACEMENT IS SELECTED

Reagan 'Saddened' by Events — Agency Is Criticized on Checks Before Hiring

By PHILIP TAUBMAN

Special to The New York Times

WASHINGTON, July 14 — Max C. Hugel, chief of clandestine operations at the Central Intelligence Agency, resigned today in the wake of allegations that he participated in fraudulent securities transactions when he managed an electronics business in the 1970's.

Calling the allegations, made by two former business associates, "unfounded, unproven and untrue," Mr. Hugel submitted a letter of resignation today to William J. Casey, Director of Central Intelligence, who had chosen him for the post. The letter said that the allegations had become "a burden which I no longer believe is fair to impose" on the Reagan Administration, the agency and his family.

Mr. Casey immediately named John H. Stein, a career C.I.A. employee, to succeed Mr. Hugel in the sensitive post of Deputy Director for Operations.

Problem for Administration

The allegations and the sudden resignation presented the Administration with an unwelcome controversy when it is trying to gain passage of major tax-cut legislation and avoid public airing of internal foreign policy disagreements.

The immediate effect appeared to include a slight chilling in the relationship between the White House and Mr. Casey, who managed President Reagan's election campaign last year and has been a close adviser to the President.

And further complicating matters was the disclosure today that Mr. Casey was found by a Federal court to have participated in an investment offering in 1968 for a farming company that made misrepresentations to investors. Mr. Casey is appealing that decision.

Reagan Described as 'Saddened'

Officially, the White House said that Mr. Reagan was "saddened" by the events that led to Mr. Hugel's resignation. Officials, however, emphasized that Mr. Hugel had not been nominated or screened by the White House. Privately, one senior aide to Mr. Reagan said that James A. Baker 3d, the White House chief of staff, had told Mr. Casey that Mr. Hugel "ought to move on for the good of the President."

The accusations against Mr. Hugel were made by Thomas R. McNell and his brother, Samuel F. McNell, two former business associates who ran a small brokerage agency called McNell Securities Corporation in the early 1970's. To support their allegations, the McNells provided The Washington Post with tape recordings of telephone conversations they had with Mr. Hugel. The Post published a partial transcript of the tapes today.

The resignation was generally greeted with relief in Congress and in the intelligence community, where Mr. Hugel's appointment to the largest directorate in the C.I.A. had been widely opposed on the grounds that he lacked sufficient experience in intelligence matters. In addition, unlike his predecessors, Mr. Hugel did not come from the Ivy League-style "gentlemen's club" background.

Setback for Agency's Head

The resignation is a setback for Mr. Casey's efforts to reduce the visibility of the C.I.A. and restore tranquility within the agency, after a decade of upheaval and public scrutiny. Two weeks ago in a memo to agency employees, Mr. Casey wrote that "the difficulties of the past decade are behind us."

Moreover, the incident raised serious questions about the effectiveness of the intelligence agency's security investigations of prospective employees. Stanley Sporkin, the C.I.A.'s general counsel, said that the investigation of Mr. Hugel had been "thorough and complete," but he acknowledged that no hint of any irregular or questionable business practices by Mr. Hugel had been unearthed.

Senator Daniel Patrick Moynihan, Democrat of New York, ranking minority member of the Senate Intelligence Committee, said today that the C.I.A. "must ask itself how it failed to learn" information relating to the accusations against Mr. Hugel.

White House officials said they did not believe that the resignation of Mr.

tronics Data Computer ...

Brokers Admit Wrongdoing

At the time, Mr. Hugel was president of the Brother International Corporation, a manufacturer of sewing machines, typewriters and computer components, and was negotiating a major business deal with Centronics.

The McNells, who acknowledge their participation in improper stock transactions, said that the information provided by Mr. Hugel gave them an advantage in buying and selling stock in the companies.

They also charged that Mr. Hugel had improperly funneled money to McNell Securities by making personal loans to Samuel McNell and that he had coordinated the phased purchase of [illegible] shares of his company's stock to create the appearance of market demand.

In the transcript published by The Post, Mr. Hugel is quoted as providing Thomas McNell with financial information about Brother International and Centronics on Dec. 5, 1974, several months before it was made public. Thomas McNell told The Post in an interview, "I knew everything that was going on inside of both companies, and I was banging the hell out of it for my clients."

Hugel Denies Violations

In his letter of resignation and in public statements, Mr. Hugel has denied any wrongdoing. In a statement released last night, he said, "The fact of the matter — and this is incontrovertible — is that I have never made a penny of unlawful profit or done anything else to bring discredit upon my company, my family, myself or the United States."

According to Mr. Sporkin, the agency's Office of Security found no evidence of improper business practices in its investigation of Mr. Hugel.

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